



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

TESTIMONY PRESENTED TO THE FINANCE, REVENUE, AND BONDING COMMITTEE MARCH 25, 2022

*Jeffrey Beckham
Acting Secretary
Office of Policy and Management*

Testimony Regarding Various Bills

Senator Fonfara, Representative Scanlon, and distinguished members of the Finance, Revenue, and Bonding Committee, thank you for the opportunity to offer testimony on the several bills before you today.

I would like to reiterate the testimony I provided in the March 15, 2022 public hearing before the Finance, Revenue, and Bonding Committee. The State received \$2.8 billion pursuant to the American Rescue Plan Act of 2021 (ARPA) from the Coronavirus State Fiscal Recovery Fund (CSFRF). Not only do these funds have specific guidelines on their uses, they also have specific limitations on policies that result in a reduction of revenue. The intent of CSFRF, as expressed by the federal government, is that these funds should be utilized for services rather than to support tax cuts. Federal regulations outline a rather narrow window of potential revenue-reducing policy initiatives through FY 2025, unless the state experiences a significant increase in revenue above a certain threshold, which is classified as “organic growth” in revenues. That narrow window, which is commonly referred to as the “de minimis rule,” allows for no more than a one percent revenue reduction, absent organic revenue growth.

The Treasury guidance outlines a process for determining how much we can cut taxes. The Office of Policy and Management’s summary of this guidance is below:

1. Step 1 – Identify Tax Cuts – Identify any policies enacted after March 3, 2021, that would result in a reduction of revenue
 - a. \$67.8 million of revenue-reducing policies were enacted during the 2021 legislative session for FY 2023
2. Step 2 – 1% De Minimis Test – The Final Rule allows revenue-reducing policy changes as long as they are below a 1% de minimis test in each fiscal year. The 1% is based on the inflated baseline (FY 2019) in each fiscal year. The Office of Policy and Management estimates this 1% de minimis amount as follows:

- a. \$252.2 million is the 1% de minimis threshold in FY 2023 as of March 11, 2022
 - b. This leaves \$184.4 million of room for revenue-reducing policies in FY 2023 under the 1% de minimis test
3. Step 3 – Organic Growth / Safe Harbor Test – If revenue changes exceed the level outlined in step 2, at the conclusion of each fiscal year the federal government will compare actual revenue to the (inflated) FY 2019 revenue baseline. If actual revenue is greater than the baseline revenue, organic growth in revenue has occurred and revenue-reducing policies would be allowed up to this level. If actual revenue is less than the inflated FY 2019 baseline, then organic growth has not occurred and the state will be evaluated as using CSFRF dollars to directly or indirectly pay for revenue reducing policies, in violation of Treasury rules, and would be required to return CSFRF grant funds to the federal government.
 - a. As of the January 18, 2022 consensus revenue forecast, the Office of Policy and Management estimates the state is \$244.8 million below organic growth, utilizing inflation data from March 11, 2022. This means organic growth is not sufficient to cover any revenue-reducing policies.
4. Step 4 – Identify Revenue-Increasing Policies and/or Spending Cuts – If the state is not compliant at step 3 (actual revenue is lower than the inflated FY 2019 baseline), then the state must identify policies that increase revenue and/or reduce spending in an amount equivalent to the total that the state is short for organic growth. If the state is unable to identify these revenue-increasing policies or spending cuts, the state is liable for repaying the federal government the amount that the state is short of organic growth.
 - a. \$188.8 million of revenue-increasing policies in FY 2023 were enacted in the 2021 legislative session.

Many of the bills on the agenda before the Finance, Revenue, and Bonding Committee today would result in a reduction of revenue. HB 5487, for instance, concerns the Property Tax Credit (PTC) and would eliminate the current eligibility restrictions, make the PTC refundable for income years beginning on/after January 1, 2022, and increase the value of the PTC beyond the levels set within the Governor’s Recommended Midterm Adjustments. Additionally, HB 5487 would index the PTC amount to the change in inflation on an August-over-August time period beginning in income year 2023 and beyond. Another bill before you today, HB 5489, indexes the Personal Income Tax bracket thresholds, the recapture provision thresholds, and the exemption level thresholds to the annual change in inflation, also on an August-over-August time period beginning in income year 2023. These changes would result in reduced revenue growth in Personal Income Tax, the state’s largest revenue source. HB 5488 would allow pass-through entities to earn a tax credit against the Personal Income Tax worth 6% of Research and Development expenditures in the applicable income year, which would result in a reduction of revenue.

In total, the bills before you today have revenue losses estimated to be in the hundreds of millions of dollars. We understand that there may be individual merits to each of these bills, but they must be considered in the context of a larger budget plan. Any revenue adjustments must be part of a legislative budget that adheres to the balanced budget requirement, spending cap, volatility cap, and revenue cap, as well as the ARPA tax cut limitations. Given the ARPA limitations described

above, if the state enacts more than \$184 million of revenue policy reductions in FY 2023, the state would be non-compliant and required to return a portion of our CSFRF award unless revenue increases or spending reduction policies were enacted.

I respectfully request that the committee review these bills with the ARPA guidelines in mind, and as part of a comprehensive legislative budget recommendation. I would like to again thank the committee for the opportunity to present this testimony. If we can provide further information, my office will be happy to work with you.